



**SUMMARIZED MINUTES  
SCOTTSDALE CITY COUNCIL  
BUDGET SUBCOMMITTEE**

Public Meeting  
Tuesday, February 28, 2006  
One Civic Center, Financial Services Conference Room  
7447 E Indian School Road, Suite 210  
Scottsdale, AZ 85251

**CALL TO ORDER**

The Budget Subcommittee meeting was called to order on Tuesday, February 28, 2006 at 3:08 P.M.

**ROLL CALL**

Subcommittee: Councilman Robert Littlefield, Chairman  
Vice Mayor Ron McCullagh  
Council Member Betty Drake

Staff: Neal Shearer  
Craig Clifford  
Terri Traaen  
Art Rullo  
Brent Stockwell

Joe Kisler

Also Present: Councilman Wayne Ecton  
Jim Stabilito, Willis Group

**APPROVAL OF MINUTES FROM FEBRUARY 14, 2006 MEETING**

Councilmember Drake moved for approval of the February 28, 2006 meeting minutes. Councilman McCullagh seconded the motion, which carried 3-0.

**GENERAL BUSINESS**

**1. FY 2006/07 Health Benefit Contribution Rates.** Staff presentation, subcommittee discussion and feedback to staff.

Mr. Clifford reviewed the FY 2006/07 health benefit summary, which was provided in advance of the meeting. There is a \$5 million cost increase forecasted through 6/30/07 (The total gross cost is offset by contributions from employees and retirees, COBRA, et cetera. The City does not bear all the costs.). He noted that there have been no rate increases for a 30-month period (through 6/30/06). There are three distinct medical plans (Aetna EPO, Aetna PPO and Mayo PPO (MMSI). There are no proposed changes in prescriptions and no proposed changes in dental plans.

Mr. Clifford overviewed a summary of key plan design changes that will result in an estimated \$1.2 million in medical plan cost savings. Office visit co-pays will increase for Aetna EPO and MMSI PPO. For example, the primary care physician co-pay will increase \$5 to \$20, and the specialist copy by \$15 to \$40. Hospital visit co-pays for Aetna EPO will also increase. Inpatient hospital co-pays will increase by \$150 to \$300 and outpatient hospital co-pays by \$50 to \$150. There are no proposed changes to the emergency room or urgent care co-pays. In addition, staff is also proposing instituting a co-pay for Cigna Behavioral Health of \$10. There are also increases in deductibles and out-of-pocket maximums for the Aetna PPO and the MMSI PPO.

Mr. Stabilito explained that the Aetna EPO plan allows people to see a specialist without a referral from their primary physician. Experience in the industry has shown that primary referral does not always function effectively and leads to higher administration costs. Mr. Shearer noted that this is a popular feature for employees.

Mr. Stabilito commented that the recommended changes are similar to typical plans offered to employees over the last 12 - 18 months in the private and public sectors.

Mr. Clifford reviewed the proposed changes in premiums referring to the slide: Proposed medical contribution rates. Referring to the slide: Monthly employee cost - Aetna EPO Plan, Mr. Clifford noted Mr. Kisler's work, which attempts to compare the core plans offered by other Valley cities. He added that a perfect comparison is not possible. It was noted that this slide compares Scottsdale's projected costs with actual costs averaged over the other cities. The other cities rates will likely be higher in the next fiscal year. A table on page 6 of the City of Scottsdale Medical/Dental Benefit Summary FY2006/07 reflects the actual figures from each of the cities in the comparison. It was clarified that the average shown on the slide does not include Scottsdale. The City compares very favorably with the other cities.

Mr. Clifford summarized that the recommended changes are necessary to offset increases in health care costs. This is a national trend. The changes would encourage prudent use of medical services and increased awareness of the true costs.

Discussions were held on how Willis arrived at the recommendations they made, and how attractive the City's plan is compared to other cities and the private sector. Mr. Clifford explained that the project gross cost of health care in the FY 2006/07 budget of \$21.9 million includes offsetting contributions from employees, retirees, and other sources. The budgeted net cost to the City is projected to be approximately \$17.5 million. The line item is shown at \$21.9 million because the City pays the claims. Employee contributions are shown in the budget as revenue to the City. The table at the top of page 6 of the summary reflects the percentage of employer contributions from the Kaiser Foundation Benefits Survey.

Staff was asked to provide a chart depicting how much of the estimated total costs for FY 2006/07 are expected to be paid by the City, and how much will be funded by employee contributions, with FY 2005/06 for comparison.

Mr. Clifford noted that the Segal Group's Retiree Health Benefits Report: Current State and Future Direction was also included in the packet. He reported that accounting standards are changing. In two years' time the City will be required to report the implicit subsidy that the City pays for retiree health care costs. Willis attempted to estimate the implicit subsidy for FY 2006/07. Staff will be commissioning a full actuarial study, in order to comply with the changing requirements.

A discussion on retirement health care funding trends ensued.

Dr. Traaen outlined the strategy to communicate upcoming changes in the health care plan to City staff. The entire benefits division staff will be talking with employees about the proposed changes.

Councilman Ecton requested that staff bring industry comparisons to the next meeting. He remarked that co-pay rates can influence health care decisions. The proposed changes for visits to specialists and the emergency room are still only a fraction of the total cost.

**2. FY 2006/07 Budget Development.** Staff updates, discussion and feedback to staff.

Chairman Littlefield noted that this agenda item will be discussed at the next meeting.

## **UPCOMING MEETINGS**

The next meeting of the Budget Subcommittee is scheduled for Monday, March 6, 2006.

## **PUBLIC COMMENTS**

None

## **ADJOURNMENT**

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 4:29 P.M.

Respectfully submitted,  
A/V Tronics, Inc.